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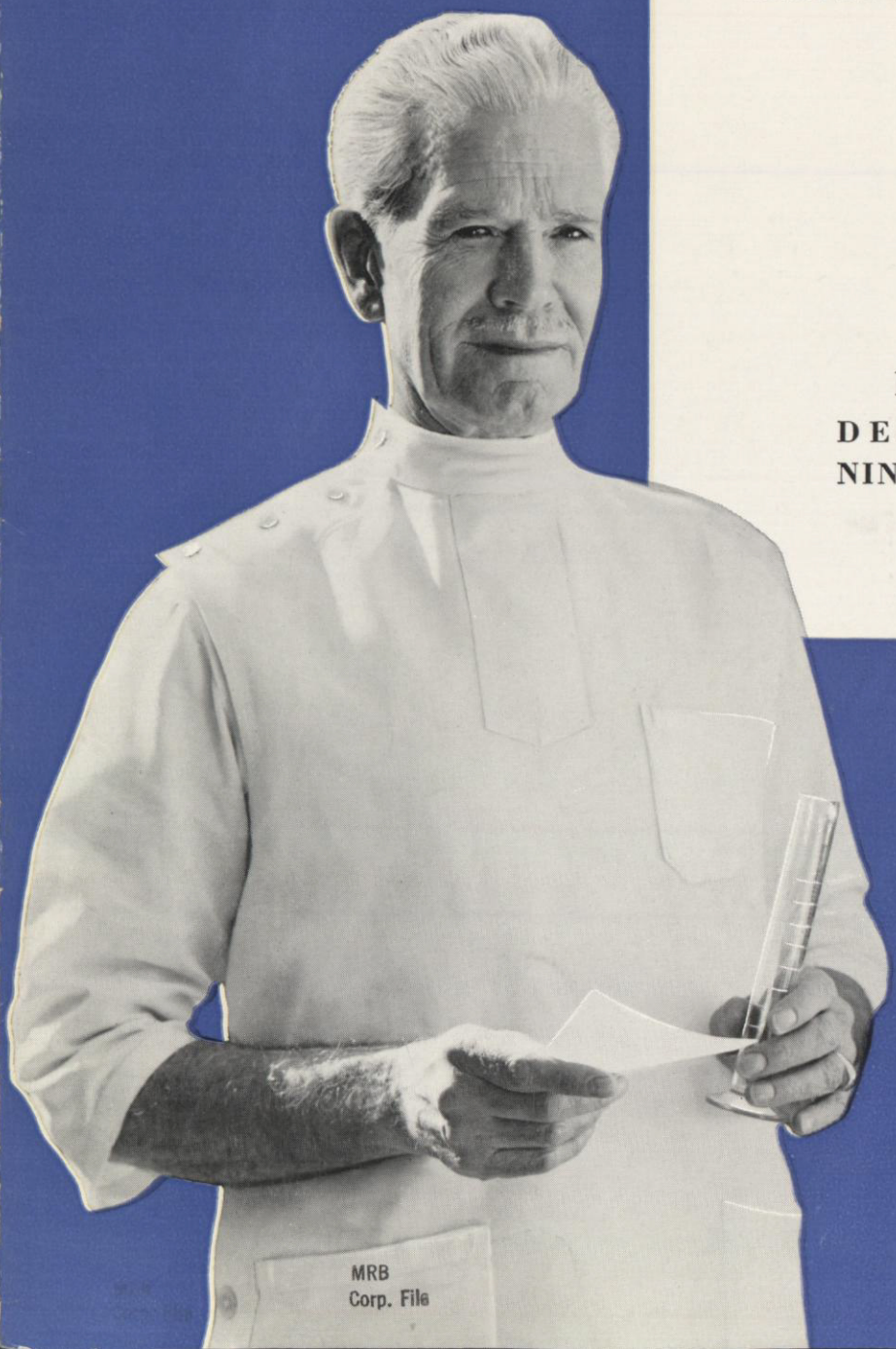
Rexall

ANNUAL REPORT



MRB
Corp. File

REXALL DRUG, INC.
DECEMBER THIRTY FIRST
NINETEEN HUNDRED AND FIFTY

directors

Earl E. Anderson	Montclair, N. J.
Arthur S. Barrows	Los Angeles, Calif.
Justin W. Dart	Los Angeles, Calif.
Scott J. Dow, Jr.	Los Angeles, Calif.
Paul A. Draper	Boston, Mass.
Joseph A. Galvin	Los Angeles, Calif.
Edward J. Griffing	Boston, Mass.
William G. Johnston	Los Angeles, Calif.
James Knowles, Jr.	St. Louis, Mo.
F. Thatcher Lane	New Haven, Conn.
Walter T. Lillie	Los Angeles, Calif.
James L. Richards	Boston, Mass.
Irving W. Smead	Los Angeles, Calif.
Vernon F. Taylor	San Antonio, Texas

executive committee

Justin W. Dart, Chairman	Los Angeles, Calif.
Earl E. Anderson	Montclair, N. J.
Arthur S. Barrows	Los Angeles, Calif.
F. Thatcher Lane	New Haven, Conn.
Walter T. Lillie	Los Angeles, Calif.

officers

Joseph A. Galvin	Chairman of the Board
Justin W. Dart	President
C. Earl Cooper	Vice-President
Scott J. Dow, Jr.	Vice-President
Edward J. Griffing	Vice-President
William G. Johnston	Vice-President
James Knowles, Jr.	Vice-President
F. Thatcher Lane	Vice-President
Walter T. Lillie	Vice-President and Controller
Fred Schmid	Vice-President
Irving W. Smead	Vice-President and Treasurer
Harold E. Price	Secretary

transfer agents – Guaranty Trust Company of New York, New York – State Street Trust Company, Boston – Bank of America National Trust & Savings Association, Los Angeles

registrars – The Chase National Bank of the City of New York, New York – The National Shawmut Bank of Boston, Boston – California Trust Company, Los Angeles

general counsel – Adams, Duque, Davis & Hazeltine, Los Angeles

independent auditors – Price Waterhouse & Co.

general headquarters – Rexall Square, 8480 Beverly Boulevard, Los Angeles 48, California

The PRESIDENT'S LETTER

To the Stockholders of Rexall Drug, Inc.:

Sales

Consolidated net sales of your Company for 1950 were $153,643,137 as compared with $156,363,621 in 1949.

The long range program of eliminating marginal retail stores was continued this year and has been substantially completed. The number of our retail stores in the United States was reduced from 346 at December 31, 1949 to 300 at December 31, 1950. We enlarged or substantially remodelled 6 stores during the year and 9 were opened.

Earnings

Consolidated net earnings of your Company and its subsidiaries after Federal income taxes for the year ended December 31, 1950 amounted to $2,024,475 or 58¢ per share as compared with a net loss of $1,250,406 in 1949.

Operating results from Company-owned retail stores in 1950 were considerably better than the previous year. Our manufacturing subsidiary companies produced larger profits for the year. The Rexall division which sells Rexall trade-marked products throughout the United States to approximately 10,000 Rexall franchise holders also improved its showing.

Our new ethical drug manufacturing subsidiary, Riker Laboratories, Inc., operated at a small loss during 1950. Its product, Veriloid, which we believe is the most effective means known to medical science for control of hypertension (high blood pressure) was released for sale in the latter part of June, 1950. It now has nationwide distribution through Rexall and all other drug stores and is available to the general public through these stores on doctors' prescriptions only. Clinical testing is continuing with very encouraging results and an adequate budget has been provided for further research and development work on Veriloid and other related products.

Financial Position

The financial position of your Company is shown by the accompanying conventional form of balance sheet. For your convenience there is set forth below a summarized statement of financial position at the beginning and end of the year.

	December 31 1950	1949
Current assets:		
Cash	$ 8,555,706	$14,032,850
Canadian Government bonds, etc.		366,458
Receivables — less estimated losses in collection	12,152,974	8,836,251
Inventories of merchandise, partly finished stocks, materials and supplies	39,433,198	34,283,419
Total current assets	$60,141,878	$57,518,978
Current liabilities:		
Accounts payable and accrued expenses	$12,170,968	$11,254,283
Current instalments of funded debt	1,596,869	1,496,382
Estimated Federal and Canadian taxes on income	3,700,700	2,276,615
Total current liabilities	$17,468,537	$15,027,280
Working capital	$42,673,341	$42,491,698
Investments and advances	3,118,530	2,662,576
Property accounts	20,498,502	20,184,714
Prepaid expenses and deferred charges	1,063,637	1,125,273
Goodwill, trademarks, etc.	1	1
Total	$67,354,011	$66,464,262
Less — Funded debt	28,137,686	29,407,337
Reserves	150,936	834,386
Stockholders' equity	$39,065,389	$36,222,539

The decrease in cash in 1950 as compared with 1949 is due to larger year-end inventories and an increase in customers' accounts receivable. Both of these items should decrease during 1951 and cash correspondingly increase.

In accordance with accounting principles now generally accepted, we have transferred the reserves for contingencies, amounting to $741,000 directly to the accounts for stockholders' equity — $100,000 to paid-in capital and $641,000 to earnings retained and used in the business. This transfer did not affect our reported net profit for the year but it does increase stockholders' equity by $741,000.

Stockholders' equity at the end of 1950 amounted to $39,065,389, which is equivalent to $11.22 a share, compared with $36,222,539 or $10.45 a share at the end of 1949.

Inventories

Inventories increased $5,150,000 during the year to $39,400,000. There was a general increase in all retail, wholesale, and manufacturing divisions, due to higher unit prices, procurement problems and increasing volume of sales. It is the policy of your management to limit inventory to the minimum consistent with volume of sales and present market conditions.

Compensation to Management

Total compensation to your officers and directors was $323,066 for services rendered in 1950 compared with $369,801 in 1949. This sum amounted to 0.9% of total consolidated payroll or 0.02% of consolidated net sales.

Board of Directors

Since our Stockholders' Meeting of May 2, 1950 three of your Directors, who were members of management, have resigned. The following persons have been elected by your Board of Directors to replace these resignations:

J. Frank Grimes, Founder and President of Independent Grocers' Alliance Distributing Co. (I.G.A. Stores), Chicago, Illinois, and President of several associated companies.

James E. Shelton, President Security-First National Bank of Los Angeles, California, and Director of Los Angeles Investment Co. and Southern California Edison Co.

Vernon F. Taylor, President Peerless Oil and Gas Company, San Antonio, Texas, and Director of Pan American World Airways, Inc.

Dividends

No dividend action was taken during 1950. Your Company has a very substantial debt which means that it is prudent to carry more cash than would be necessary if we were a debt-free Company. We must also face the necessity of carrying higher dollar inventories and other cash requirements resulting from our increasing sales volume.

Outlook and Plans

Company-Owned Stores. The favorable outlook for drug store sales in 1951 combined with improved operational effectiveness of our retail divisions should result in a continued betterment of operations.

Due to current restrictions on new building and on substantial improvements to existing properties we anticipate limited expansion of our retail stores during 1951. This period, however, will afford us an opportunity for further study, experimentation and improvement of our varied retail facilities which will make future expansion in this field more secure.

Rexall Trade-Marked Products. Last year the largest number of Rexall Dealers sold the greatest volume of Rexall products in history. For the year 1951 we expect a further increase in the number of Rexall Dealers and in the sale of Rexall trade-marked products. The response to our combined radio and national advertising program has been excellent.

Manufacturing Subsidiaries. The national defense program will probably interfere with production in some of our manufacturing subsidiaries. There is every indication, however, that we will do a substantially larger volume of business in these plants on which we expect to maintain a reasonable margin of profit.

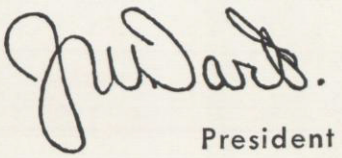
Summary of Outlook. We look for a further improvement in profits before taxes for the year 1951. Under the present Federal tax law we are advised that we will not be subject to existing excess profit tax rates unless earnings before Federal taxes are in excess of approximately $5,000,000. There should be a profit for the first six months of 1951 compared with a loss in 1950.

Conclusion

Your Board of Directors and other members of management wish to express their appreciation for the individual and collective contributions which our employees have made to the success of your Company during the past year. We are particularly pleased with the increasingly enthusiastic cooperation of our Rexall Dealers.

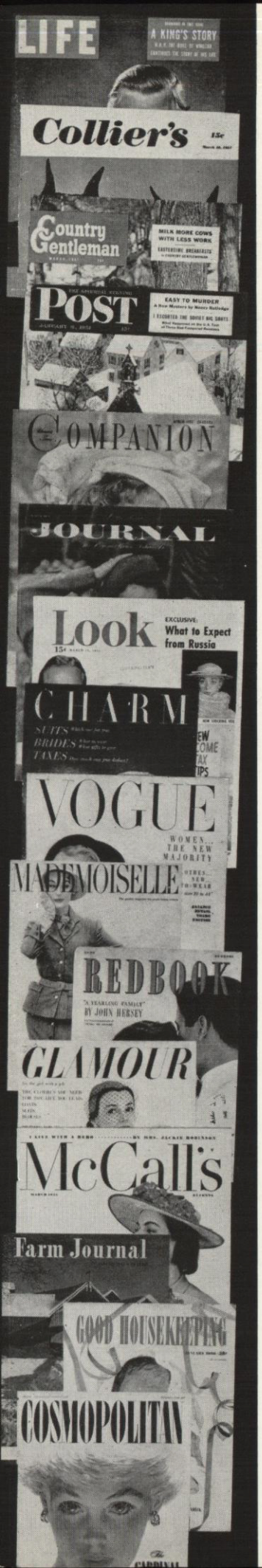
We urge you to exercise your voting rights and to mail your proxy as speedily as possible in case you cannot be present in person at the Stockholders' Meeting.

Respectfully submitted,

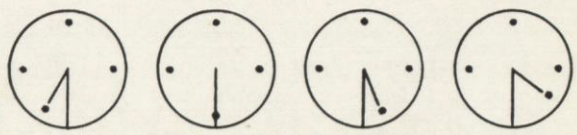


President

March 20, 1951



THIS IS WHERE Rexall PRODUCTS ARE MADE



Listen Every Sunday Over CBS When AMOS 'N' ANDY TELL AMERICA ABOUT Rexall

Amos 'n' Andy, radio's all-time favorites, tell the Rexall story to more than 15,000,000 listeners every Sunday following Jack Benny and preceding Edgar Bergen. It's the most popular radio show Rexall has ever sponsored . . . during the past season it has been rated consistently as one of radio's top 5 programs. Reports from Rexall Druggists across the country say that it is making friends for Rexall as never before.

THIS IS WHERE AMERICA READS ABOUT Rexall

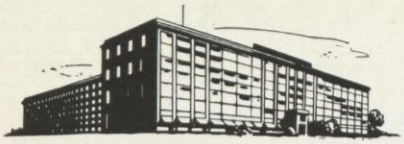
An important factor behind the record movement of Rexall Products in 1950, was a program of *merchandising advertising* directed to the 60,000,000 readers of Life, Look, Saturday Evening Post, Collier's and Country Gentleman. The outstanding results achieved by this local advertising on a national scale have led your company to schedule advertisements in these magazines for every month of 1951.

Also scheduled for 1951 are monthly advertisements designed to impart to Cara Nome, the prestige enjoyed by competing cosmetics. The 5 previously mentioned magazines, plus 11 fashion and women's magazines, will be used to reach a market of 85,000,000 readers . . . to create national demand for the fine line of Cara Nome Cosmetics.

THIS IS WHERE AMERICA BUYS Rexall PRODUCTS

Throughout America, nearly 10,000 drug stores proudly bear the familiar Rexall sign. It is to these Rexall Drug Stores that Amos 'n' Andy and national magazine advertisements direct consumers in ever-growing numbers. As a consumer, you can also contribute to your company's success. *Know the products you make . . . use the products you make.* And become acquainted with your local Rexall Druggist . . . he is your partner in business.

You Can Depend On Any Drug Product That Bears The Name Rexall



ST. LOUIS, MO.

The home of some 2,400 pharmaceutical and medicine products. From this modern plant come such famous Rexall products as Rexall Mi 31 Solution (all-purpose antiseptic) Rexall Bisma-Rex (antacid powder and tablets) and Rexall Aspirin, as well as the complete line of R.D. Pharmaceuticals.

BOSTON, MASS.

In this cosmetic and toiletries plant are made Cara Nome Cosmetics, Helen Cornell Cosmetics and Hair Preparations and Stag Toiletries For Men. This is also where the new Rexall Sugar-Free Tooth Paste is manufactured.

NEW HAVEN, CONN.

Home of The Seamless Rubber Company and of such famous brands of rubber goods as Kantleek, Symbol, Defender and Victoria. It was here, too, that fast-selling Stork Nursers, Rexall Pro-Cap Adhesive Tape and Rexall Quik-Bands were developed.

VALLEY PARK, MO.

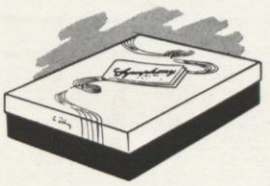
This is the source for many of Rexall's first aid and hospital supplies. Reel-Roll Cotton and gauze and gauze bandages are just a few of the many well-known Rexall products that are produced in this plant.

HIGHLAND, N. Y.

The world's finest and most delicious chocolate syrup is made here—Gales $50,000 Chocolate Syrup. It is also the home of Ballardvale Grape Juice and of the complete line of Gales Fountain Flavors, Syrups and Fruit Concentrates.

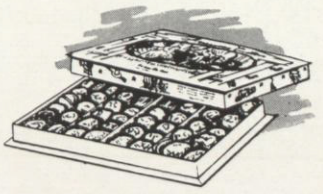
ALBANY, N. Y.

Here Rexall manufactures a complete line of stationery and school supplies. Symphony, Lord Baltimore, Cascade and Belmont are the better-known brand names to be found among these products.



MANSFIELD, MASS.

This is the home of Rexall candy products. It is also one of the nation's chief producers of chocolate coatings, supplying many of the largest candy manufacturers in the country. The very popular line of Nymer Neal Chocolates (including famous American Custom Chocolates) and Liggett Chocolate Bars are among the products that come from here.



WILLIAMSPORT, PA.

Consumer demand for hosiery in drugstores led your company to the acquisition of this complete hosiery mill. The quality of the Spuntex Hosiery manufactured here is the equal of any hosiery on the market and has met with unusual acceptance in Rexall Drug Stores throughout the country.

LOS ANGELES, CALIF.

This is your company's latest subsidiary . . . The Riker Laboratories. In this modern plant is manufactured Veriloid . . . a new pharmaceutical product which is obtainable only on a doctor's prescription and which is available through every drug store in America. It has gained wide favor with the medical profession for the great benefit it offers sufferers of high blood pressure.

REXALL DRUG, INC. (incorporated in Delaware) AND ITS

Consolidated Balance Sheets

ASSETS	1950	1949
Current Assets		
Cash in banks and on hand	$ 8,555,706	$14,032,850
Canadian Government bonds, etc.		366,458
Accounts and notes receivable, less estimated losses in collection —		
Customers	10,163,479	6,668,466
Others	1,989,495	1,617,785
Estimated refundable Federal taxes on income		550,000
Inventories of merchandise, partly finished stocks, materials and supplies — at cost or market whichever lower	39,433,198	34,283,419
TOTAL CURRENT ASSETS	$60,141,878	$57,518,978
Investments and Advances, etc.		
Investments in and advances to wholly owned English and South African subsidiaries not consolidated *(net assets of these subsidiaries were $580,000 at December 31, 1950)*	$ 334,904	$ 340,869
Miscellaneous investments, at or below cost	1,808,765	1,597,323
Noncurrent receivables, advances and deposits	974,861	724,384
	$ 3,118,530	$ 2,662,576
Property Accounts, at cost:		
Land, buildings and building fixtures	$10,101,765	$ 9,937,012
Machinery and equipment, etc.	12,169,692	11,370,636
Store fixtures, leaseholds and improvements, etc.	17,490,047	17,628,354
	$39,761,504	$38,936,002
Less — Accumulated depreciation	19,263,002	18,751,288
	$20,498,502	$20,184,714
Deferred Charges		
Prepaid insurance, taxes, rent, etc.	$ 985,023	$ 1,034,271
Unamortized discount and expense on funded debt	78,614	91,002
	$ 1,063,637	$ 1,125,273
Goodwill, Trademarks, etc.	$ 1	$ 1
	$84,822,548	$81,491,542

NOTES:

At December 31, 1950 the companies had lease commitments covering some 225 leases expiring more than three years after that date with minimum annual rentals of approximately $3,500,000. Less than 10 per cent of this amount relates to leases expiring more than 25 years after December 31, 1950. Under certain leases the companies have obligations to erect buildings, make alterations, or install stores which it is estimated will cost not less than $1,000,000.

The income tax liabilities of the United States companies for 1941 and prior years have been settled and the estimates included in current liabilities for subsequent years are believed to be adequate.

UNITED STATES AND CANADIAN SUBSIDIARIES

December 31, 1950 and December 31, 1949

LIABILITIES	1950	1949
Current Liabilities		
Accounts payable and accrued expenses	$12,170,968	$11,254,283
Current instalments of funded debt	1,596,869	1,496,382
Estimated Federal and Canadian taxes on income	3,700,700	2,276,615
TOTAL CURRENT LIABILITIES	$17,468,537	$15,027,280
Funded Debt, less current instalments shown above:		
Bank loans due to December 1954	$ 1,255,000	$ 2,530,000
Sinking fund debentures, 3¾% due 1961, authorized and issued $2,500,000	1,900,000	2,100,000
Sinking fund debentures, 3% due 1965, authorized and issued $25,200,000	24,630,000	24,630,000
Real estate obligations	352,686	147,337
	$28,137,686	$29,407,337
Reserves		
Self-insurance	$ 150,936	$ 93,386
Contingencies (restored to stockholders' equity — see President's letter)		741,000
	$ 150,936	$ 834,386
Stockholders' Equity		
Capital stock of Rexall Drug, Inc. Authorized — 5,000,000 shares, par value $2.50 each Issued — 3,501,120 shares	$ 8,752,800	$ 8,752,800
Other paid in capital, per accompanying statement	10,640,357	10,533,265
Earnings retained and used in the business, per accompanying statement	19,783,442	17,117,967
(under funded debt indentures, $1,100,000 of the retained earnings is not restricted as to payment of dividends at December 31, 1950)		
	$39,176,599	$36,404,032
Less — Cost of capital stock of Rexall Drug, Inc. acquired and held by a subsidiary — 20,570 shares in 1950 and 33,570 shares in 1949	111,210	181,493
(20,400 shares are optioned to executives at $6.375 per share)		
	$39,065,389	$36,222,539
	$84,822,548	$81,491,542

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF REXALL DRUG, INC.:

In our opinion, the accompanying statements present fairly the financial position of Rexall Drug, Inc. and its subsidiary companies at December 31, 1950, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, which we approve, in treatment of Canadian exchange adjustment explained below. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In order to conform to current practice, the exchange adjustment (a credit of $184,430) arising from expressing in United States dollars the net assets of the Canadian subsidiaries entering into the consolidation has been included in the determination of net earnings for the year 1950 whereas in prior years such exchange adjustments were excluded from the determination of net income and charged or credited to the statement of earnings retained in the business.

Los Angeles
February 27, 1951

PRICE WATERHOUSE & CO.

REXALL DRUG, INC.

AND ITS UNITED STATES AND CANADIAN SUBSIDIARIES

Consolidated Statement of Earnings for the years 1950 and 1949

	1950	1949
Sales, less returns, allowances and discounts	$153,643,137	$156,363,621
Cost of sales, selling, distribution, promotional and administrative expenses, etc. (including depreciation of $2,170,000 in 1950 and $2,025,000 in 1949)	(148,830,635)	(156,391,627)
Interest on funded debt	(937,674)	(958,820)
Dividends from wholly owned foreign subsidiaries (*earnings of these subsidiaries were $40,000 in 1950 and $50,000 in 1949*)		16,593
Excess of other deductions over other income — chiefly from rental of real estate, disposal of properties and cancellation of leases and other contracts	(359,783) (*loss*)	(745,173) (*loss*)
Exchange adjustment arising from expressing net assets of Canadian subsidiaries in United States dollars	184,430	(see below)
Federal and Canadian taxes on income —		
1950 provision	(1,675,000)	
1949 refund attributable to loss carry-back adjustments		465,000
NET EARNINGS (LOSS) FOR YEAR	$ 2,024,475	$ (1,250,406)

Consolidated Statement of Earnings Retained and Used in the Business (Earned Surplus) for the years 1950 and 1949

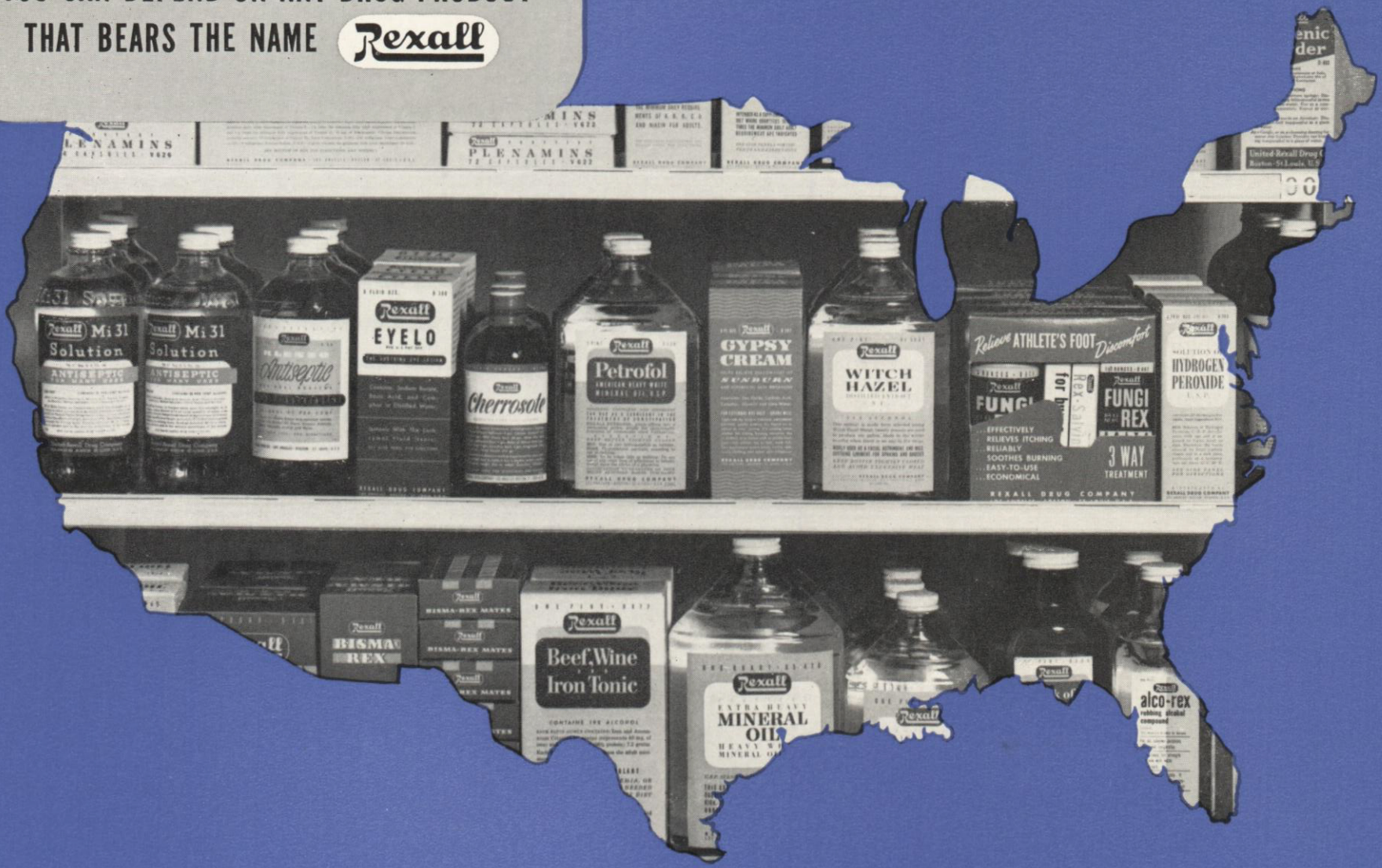
	1950	1949
Balance at beginning of year	$ 17,117,967	$ 18,498,738
Net earnings (loss) for year	$ 2,024,475	$ (1,250,406)
Exchange adjustment arising from expressing net assets of Canadian subsidiaries in United States dollars	(see above)	(130,365)
Restoration of reserves for contingencies provided by charges to earnings in prior years	641,000	
Increase (*decrease*) for the year	$ 2,665,475	$ (1,380,771)
Balance at close of year	$ 19,783,442	$ 17,117,967

Consolidated Statement of Other Paid in Capital

	1950	1949
Balance at beginning of year	$ 10,533,265	$ 10,533,265
Restoration of reserve for contingencies created on acquisition of a subsidiary in 1933	100,000	
Excess, over average cost, of consideration received from exercise of options for 13,000 shares of Rexall Drug, Inc. capital stock held by a subsidiary	7,092	
Balance at close of year	$ 10,640,357	$ 10,533,265

all America knows that...

YOU CAN DEPEND ON ANY DRUG PRODUCT THAT BEARS THE NAME Rexall



Rexall